

**INVESTIGATIVE AUDIT OF THE RECORDS OF
THE ACTIVITY FUNDS OF SULLIVAN CENTRAL HIGH SCHOOL
SULLIVAN COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2000, THROUGH DECEMBER 31, 2001**

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Inadequate separation of duties**

The bookkeeper, who was responsible for preparing and making deposits and reconciling bank statements, was also responsible for receipting and recording collections. In addition, she prepared checks and reconciled bank statements, and had possession of the principal's signature stamp. The *Tennessee Internal School Uniform Accounting Policy Manual*, page 4-6-7, states:

To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records and reconciling bank accounts. A person who is independent of the receiving, depositing and recording functions should compare bank deposits with the prenumbered receipts . . . Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.

RECOMMENDATION:

To help ensure that all collections are deposited into the school's account and errors or irregularities are detected promptly, the principal should require an adequate system of internal control so that no employee has control over a complete transaction. To help ensure that all disbursements are authorized, the bookkeeper as an authorized check signer, should not have access to the principal's signature stamp. We have provided the school with additional detailed internal control recommendations to assist in addressing the lack of separation of duties.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that the same individual should not be in control of a complete transaction. This has been done due to a lack of personnel. Within the means available to us, we will try to make available any personnel that can be assigned to assist the bookkeeper with some of these duties. Without additional personnel, it may be difficult to totally comply. Although we do not believe the principal's stamp was used in any transactions, the principal will secure the stamp in his possession. The stamp has never been used to stamp checks, purchase orders, or any authorizations. It was made available to stamp correspondence when the principal was not accessible.

2. **FINDING:** **Inadequate controls over teacher collections**

Teachers used either logs or teacher receipts to record collections. However, several teachers using logs did not identify the date of each collection or total the log for each day. Collections were placed in envelopes which usually identified only the collecting teacher and account, and most were not accompanied by a log or copies of the teacher's receipts. Therefore, the bookkeeper frequently did not have sufficient information to identify the specific source of collections in the school's accounting records. As a result, in several instances, it was difficult or impossible to reconcile a teacher's collection records to the corresponding receipt issued by the bookkeeper, and in these instances, the total amount of collections from a particular fundraiser could not be determined from the school's accounting records.

In addition, collections were not counted and a receipt issued at the time money was turned in to the bookkeeper, and in several instances, teachers did not turn over collections promptly.

The *Internal School Uniform Accounting Policy Manual*, pages 5-3 through 5-5, explains the documentation and information which should accompany collections turned over to the bookkeeper and requires teachers to turn in collections daily. Page 5-7 of the manual states, "The principal should prohibit teachers/others from turning money over (leaving money on the cashier's desk) without receiving a receipt. . . . The cashier must count the money and issue a prenumbered receipt at the time money is remitted."

RECOMMENDATION:

To provide records for documenting that all collections are recorded and deposited, the cashier should recount collections in the presence of the person remitting them and issue a prenumbered receipt. Teachers' collections turned in to the bookkeeper should be accompanied by a copy of the related log or copies of the receipts issued by the teacher. The bookkeeper should file and retain all documentation related to collections. Teachers should turn in collections daily.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that collections should be counted in the presence of the person remitting them and a receipt should be issued at the time. However, this is almost impossible. Approximately 18 teachers are free each period of the day for 90 minutes. It would not be humanly possible to do this and for teachers to still be able to get to class on a timely basis. According to the manual, “School must establish procedures to ensure that all student activity funds are handled properly, consistent with the requirements of this manual and in a manner that minimizes the impact on instruction.” To the extent possible with the limited personnel we have available, we will try to comply. Although teachers have been informed as to the timely remitting policy, they will be reminded of this policy. Also, better accounting by using logs, maintaining proper receipts and identifying the source of money being remitted will be emphasized.

Bookkeeper:

I concur that collections should be counted in the presence of the person remitting them and a receipt should be issued at the time. More diligence will be used to make sure these records are complete at the time they are receipted.

AUDITOR’S REBUTTAL TO RESPONSES OF THE DIRECTOR OF SCHOOLS, MEMBERS OF THE DEPARTMENT OF EDUCATION, AND PRINCIPAL:

The *Internal School Uniform Accounting Policy Manual*, page 1-7, states, “money or property received by a school official, employee, or volunteer, acting in his or her official capacity, become public money or property. . . . Such money must be appropriately managed and safeguarded by the school.” In addition, page 5-3 of the manual cited states, “Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability. . . . *The principal should never authorize or require any collection which cannot be adequately accounted for.*” (Emphasis added.) As stated in the finding, the person acting as cashier, preferably not the bookkeeper, is required to count the money and issue a receipt at the time money is remitted. If, in the judgment of the principal, school personnel are unable to comply with this necessary internal control procedure, the principal should ensure that collections are limited to those that school personnel can correctly process. Therefore, we reiterate our finding and recommendation.

3. **FINDING:** **Inadequate accounting for fundraising activities**

In at least one instance, there was no documentation of fundraiser transactions. In other instances, although logs were present, they did not accurately reflect collections received and remitted to the office. As noted in Finding 2, some logs only reflected the total amount collected over several days, not how much was collected each day, so they could not be traced to a specific receipt issued by the bookkeeper.

Although sponsors attempted to complete reports analyzing expected collections, in most instances, they did not provide accurate information, including the correct number of items to be accounted for and the number of items given away, lost, or spoiled. In addition, collections recorded on these reports were not identified by the number(s) of the receipt(s) issued by the bookkeeper or independently verified.

Section 49-2-110(d)(1), *Tennessee Code Annotated*, states, “The principal shall be liable to account for the safekeeping and handling of all funds of every character raised by student activities, school services and school events, irrespective of the sources of such funds, or the purpose for which they were raised.” The *Internal School Uniform Accounting Policy Manual*, page 4-27, states:

[P]rofit analysis reports must be completed to document collections, expenses, and any losses of money or product. . . . The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given . . .

RECOMMENDATION:

To establish accountability and adequately account for fundraising collections and inventory, the principal should require that sponsors keep adequate records, including collection logs, of all fundraiser transactions. For each fundraiser, the sponsor should complete an accurate profit analysis or a comparison of the amount of expected collections to actual collections with an explanation of any difference. The information in these reports, including the amount of collections reported, should be verified by an independent person. A designated school official should review all reports and take the necessary steps to ensure that deficiencies in fundraiser operations are eliminated.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that documentation of fundraising activities needs to be improved. A new accountability form (given to us by the auditors) will be used. Accounting of all sold unsold, spoiled, or items given away will be documented. An assistant principal will review all fundraising forms to ensure all accounting is maintained.

Bookkeeper:

I concur that documentation of fundraising activities needs to be improved. More attention will be given to the accountability of inventory. A new form will be used to reconcile fundraising projects.

4. **FINDING:** **Failure to adopt a policy regulating use of certain athletic club fundraising proceeds**

The basketball club raised more than \$12,000 during each of the fiscal years ended June 30, 2001, and 2002, to pay the majority of Florida tournament competition expenses for the boys team in the prior year and both the boys and girls teams in the current year. Trip expenditures included lodging costs and apparently a few meals for a number of adult chaperones, including parents of players, and spouses of school staff members, as well as for several nonplayer youths. For the first trip, it appeared that the ratio of adult chaperones to players and student workers was almost one to one. For both trips, the number of adult chaperones whose trip expenses were paid completely or partially with school funds appeared to exceed the number of adults needed for supervision. This condition appeared to have resulted because school management had not developed criteria to ensure that such trips adequately benefit club members and to ensure that an appropriate and reasonable school-funded chaperone to student ratio is maintained. The *Internal School Uniform Accounting Policy Manual*, page 5-11, states, "All purchases must be for an appropriate purpose . . . The principal or principal's designee is responsible for determining the appropriateness of purchases." The manual cited, page 1-6, also states, "Schools must establish procedures to ensure that all student activity funds are handled properly . . . Prior to authorizing . . . collections, management should evaluate the ability of school personnel to provide adequate accountability demanded by the public."

RECOMMENDATION:

To help ensure that all expenditures of school money provide maximum benefit to students, school management should develop criteria for evaluating the reasonableness and appropriateness of planned trips and the number of school-funded, nonmember personnel needed. In addition, to help avoid misunderstandings, school organizations should consider publicizing the intended use of money collected during large fundraising events.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education (except member Jack Bales):

Response is the same as that of the principal (refer below).

Principal:

I concur that expenditures of school money should provide maximum benefit to students. However, we feel funds raised for the basketball trip were not used inappropriately. Adults that attended this trip either paid necessary expenses or were not asked to pay due to their contributions to the basketball program that were not financially compensated. In years past when people were paid to perform these duties, the cost would have far exceeded the benefit they received. The athletic program cannot afford to pay compensation to these individuals. This is one way to reward these individuals that is more affordable. The department may want to consider developing a procedure to determine the number of individuals that can attend a trip. We suggest this be at the discretion of the principal and the sponsor of the activity. We recommend that the number of people attending any trip and the amount of the expense they should incur be based on their total contributions to the program in relation to what it would have cost to financially compensate them for these services.

Member Jack Bales:

I concur that expenditures of school money should provide maximum benefit to the students involved. The department of education should develop a policy to provide principals with guidelines to follow to determine what expenses and whose expenses will be reimbursed for travel. **Leaving those decisions to the discretion of the principal has resulted in this finding.** Expenses for family members accompanying school staff members should be prohibited and not left to the discretion of the principal.

AUDITOR'S REBUTTAL TO RESPONSES OF THE DIRECTOR OF SCHOOLS, MEMBERS OF THE DEPARTMENT OF EDUCATION (except member Jack Bales), AND PRINCIPAL:

As noted in the finding, the school's records revealed that the number of school-funded, nonteam personnel, including children of the principal and a coach, who accompanied the teams, appeared excessive. The exact amount of individual reimbursements could not be determined from the school's records. While recognizing volunteers in some small way is commendable, using fundraising proceeds for the purpose of providing nonfinancial compensation to such persons does not appear appropriate. Therefore, we reiterate our finding and recommendation.

5. FINDING: Inadequate controls over admissions to events and event concessions

Although prenumbered tickets were sold and ticket reconciliations were completed for athletic events, the school failed to assign responsibility to a separate person for collecting tickets at the point of admission. In addition, ticket sellers did not count collections and document the count before turning the money over for deposit. Finally, in several instances, gate collections were not deposited within three days.

Similarly, school personnel did not ensure that concession collections were counted by two persons and the count documented before the money was stored in the school's vault after a game. In addition, an analysis of profit or expected collections was not documented for concessions sold at athletic events to raise money for athletics or concessions operated by clubs as fundraisers. The *Internal School Uniform Accounting Policy Manual*, pages 5-5-6, sets forth detailed procedures for accounting for admissions to events. The *Internal School Uniform Accounting Policy Manual*, page 6-2, states, "Collections should be deposited daily, if possible, but no more than three days after the initial collection."

RECOMMENDATION:

To adequately account for collections from admissions to events, the principal should assign a separate person the responsibility for collecting tickets at the point of admission. In addition, the principal should require each ticket seller and concession operator to count collections with a second person designated by him, and he should ensure that both counters complete and sign a cash count form prior to turning collections over for deposit. The original cash count form should be remitted to the bookkeeper with the collections and unused tickets. A copy of the cash count should be retained by the seller (or the designee when the seller is the bookkeeper) for comparison to the related prenumbered receipt received from the bookkeeper. The principal should be notified of

any discrepancies between the two documents. Finally, an analysis of profit should be documented for all concession operations.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that improved controls of athletic admission and concession receipts should be implemented. It is difficult to get individuals to work gates at athletic events, The cost, if compensated individuals are used, will double. Our athletic budget cannot handle that expense. Students may have to be used (possibly clubs) without compensation. This may result in getting less responsible people working the gates. Money will be collected by two individuals working the gate, recorded, and signatures will be obtained to verify the amount of money collected. The athletic account for 2001-2002 had an ending balance of \$90. We cannot afford any more compensated workers!

Bookkeeper:

I concur that improved controls of the athletic admission and concession receipts should be implemented. Forms have already been designed to obtain signatures of persons counting money and verifying tickets. Plans are being made to schedule enough persons to comply.

6. **FINDING:** **Lack of controls over purchasing**

School personnel did not correctly use purchase requisition/authorization/order forms for some purchases. Forms were not signed by the bookkeeper to document that the balance in the account was sufficient to allow the purchase. In addition, for several purchases over \$100, the purchase requisition/authorization/order form was not completed. In other instances, the forms were completed after the purchase was made or were not completed correctly. In addition, many purchases were made under an “open” purchase order which allowed all purchases from one vendor. These forms did not document individual purchases in any way, listing neither purchasers, dates, item descriptions, amounts, nor purchase limits. The *Internal School Uniform Accounting Policy Manual*, pages 5-12–15, set forth detailed procedures for the use and retention of school purchase requisitions/authorizations/orders.

RECOMMENDATION:

To better control expenditures and help prevent deficit fund or account balances, school personnel should correctly and consistently use and file a purchase requisition/authorization/order form for all purchases. The bookkeeper should sign the requisition to document that she has determined that the account to be charged has a balance sufficient to allow the purchase, and if the purchase is over \$100, the principal should sign to document his approval. If the exact amount of the purchase is not known at the time the purchase requisition/authorization/order form is prepared, a description of the purchase and an estimate or a limitation should be recorded on the form.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that controls over purchasing need to be improved. Policies are adequate and in place to maintain this. We need to be more adamant about enforcing the policy. The bookkeeper will sign the purchase order to verify funds are in the account for each restricted account. However, this is really not necessary. I review the balance of accounts at least once and in most cases twice per week. I approve all purchase orders. I know if funds are in the account to make purchases. If teachers purchase without following procedure, it will become their own personal liability and not the school's responsibility.

Bookkeeper:

I concur that controls over purchasing need to be improved. More care will be taken to secure the required signed forms.

7. **FINDING:** **Inadequate supporting documentation for some disbursements**

The school's files did not include adequate supporting documentation for some disbursements. For several disbursements to provide money for meal allowances, there was no list of signatures documenting that the students had received the cash distribution. For some disbursements for travel, lodging invoices were not on file for all travelers. In addition, personnel did not always document, by signing and dating the delivery receipt or invoice, that goods or services purchased by the school were received as ordered. Similarly, although invoices for soft drinks were signed, per discussion with personnel, the items purchased were not verified. The *Internal School Uniform Accounting Policy*

Manual, pages 5-13–15, set forth purchasing procedures which include maintaining adequate supporting documentation for all disbursements.

The *Internal School Uniform Accounting Policy Manual*, page 5-13, specifies that the responsible employee should sign the applicable document (receiving report, delivery receipt, or invoice) to indicate that items or services were received as ordered.

RECOMMENDATION:

To help ensure and provide evidence that each disbursement was for a valid school purpose, the principal should ensure that adequate documentation is maintained in the school's files. The employee responsible or another designated by the principal should ensure that the school has received the products ordered or that services have been satisfactorily performed and should sign or initial the related invoice to so indicate.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur supporting documentation needs to be maintained for disbursements. Individuals receiving meal allowances will sign that they received the allotment awarded. Signing the invoice in the stamped area was our procedure for verifying items were received and that payment could be awarded. We feel this procedure is sufficient. The form is not signed until goods are received.

Bookkeeper:

I concur supporting documentation needs to be maintained for disbursements. Suggestions made by the auditors during audit have been implemented regarding student signing for meal money. More care will be taken to see that all necessary forms be signed.

**AUDITOR'S REBUTTAL TO RESPONSES OF THE DIRECTOR OF SCHOOLS,
MEMBERS OF THE DEPARTMENT OF EDUCATION, AND PRINCIPAL:**

As stated in the finding, in a number of instances, invoices or delivery receipts from several vendors, including Quill, Athletic House, and Taylor Publishing, were not signed to indicate that the goods or services were received. In some instances, a signature or initials were present, but personnel admitted that it did not signify that the amount of product invoiced had been verified as received by the school. As a result, the school's procedures were not sufficient, and we reiterate our finding and recommendation.

8. **FINDING:** Failure to document required authorization for some purchases

In several instances, student authorization forms were not completed or were dated after the purchase was made. In addition, some disbursements over \$2,000 were not approved by the director of schools as required by the department's policy. The *Internal School Uniform Accounting Policy Manual*, pages 5-11-12, states that purchases by student organizations should be approved by the membership of the organization. A student authorization form should be completed and given to the bookkeeper along with the purchase request. Permission for certain routine and recurring expenses, such as refreshments for meetings, may be documented once for the entire year. Sullivan County Department of Education, School Board Policy, Department: Fiscal Management and Budget, Policy: 2100, states, "Any purchase over \$2,000.00 must be approved by the Director or designee."

RECOMMENDATION:

To help ensure disbursements are for a valid purpose and have been authorized, all purchase requests by a student organization should be supported by a student authorization form signed by a representative of the organization. In addition, all purchases over \$2,000 should be approved by the director or his designee as required by the department's policy.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that proper authorization of purchases be obtained. We are not aware of any purchase over \$2,000 where this was not obtained. No purchase will be made in the future without proper student authorization obtained.

Bookkeeper:

I concur that proper authorization of purchases be obtained. More care will be taken to see that proper authorization be obtained.

**AUDITOR'S REBUTTAL TO RESPONSES OF THE DIRECTOR OF SCHOOLS,
MEMBERS OF THE DEPARTMENT OF EDUCATION, AND PRINCIPAL:**

Our review of disbursements revealed that for at least 11 purchases, each exceeding \$2,000, including ones from Team Sports Outfitters, CSTT Sports, Lovell Fundraising, Dollywood, and Taylor Publishing Company, documentation of the approval of the director of schools was not in the school's files as required by the department's policy. Therefore, we reiterate our finding and recommendation.

9. **FINDING: Inadequate controls over vending operations**

Although the school had a written agreement on file with the company which provided full-service snack vending, the agreement did not specify the percentage commission the school would receive on sales, and school personnel did not independently verify the amount of product sold. For beverage vending, the school purchased products stocked by the vendor, and school personnel collected money from machines. However, collections from the beverage machines were made by only one person, who did not count the money, and as noted in Finding 7, the amount of product stocked by the vendor and invoiced to the school was not verified by school personnel when delivered. Finally, although disbursements for beverage vending products and collections for the products were recorded in one separate accounting report which was periodically reviewed by the principal, school personnel did not document a calculation of the percentage of profit earned. The *Internal School Uniform Accounting Policy Manual*, page 4-29, states:

2. For vending operations, when the vendor does all product work and the school only receives a percentage, a counter controlled by school personnel should be placed on the machines. If a counter is not used, cash must be counted by school personnel (preferably two persons should be present) when removed from machines in order to establish the amount of collections to be used in calculating the division of profits per the written agreement. . . .

3. A responsible school employee should verify the receipt of all incoming items for resale by comparing the items received to the invoiced amounts and descriptions, noting any discrepancies on the invoice, and signing the invoice.

Page 4-27 of the manual cited states, “For ongoing resale activities such as bookstores, concessions, vending, etc., monthly profit analysis reports must be completed to document collections, expenses, and any losses of money or product.” Finally, page 5-6 of the same manual requires the use of a cash count form signed by two responsible individuals for activities that do not lend themselves to the use of a collection log.

RECOMMENDATION:

The principal should obtain an adequate written vending agreement which should include the rate of commission the school is to receive. In addition, the principal should require a designated employee to verify that the school receives the correct amount of vending commission from the vendor. Two responsible individuals should collect the money from the beverage machines, record their count on a cash count sheet and both should sign the count sheet. The amount of product stocked in the machines and invoiced to the school should be verified and the invoice signed to document the verification. Periodically, a profit analysis for beverage vending should be documented.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that proper controls over vending operations need to be maintained. We will obtain a contract with our snack vendor showing percentage of profit included. This information is in the proposal we accepted but not in the contract. (The percentage in the proposal is being honored.) Personnel are not available to count drinks put in machines. Even if personnel were available, the delivery times are often before school hours or after school hours when personnel are not there. We will devise a form to evaluate the percentage of profit for each quarter. Two individuals will collect the vending revenue and sign to verify the amount of money collected.

Bookkeeper:

I concur that proper controls over vending operations need to be maintained. A procedure has been set in place to evaluate the margin of profit quarterly.

**AUDITOR'S REBUTTAL TO RESPONSES OF THE DIRECTOR OF SCHOOLS,
MEMBERS OF THE DEPARTMENT OF EDUCATION, AND PRINCIPAL:**

It would appear that facility security concerns would preclude beverage vendor representatives from being allowed to make deliveries when school personnel are not present in the buildings. Nevertheless, if the principal is unable to assign school personnel or responsible students to verify that the cases of beverages for resale which are invoiced to the school have actually been received by the school, the school should not use this method of conducting vending operations. The principal should be aware that all methods of vending operation require that the school verify either product delivered, product sold, or related collections in order to ensure that the school receives all money to which it is entitled. Therefore, we reiterate our finding and recommendation.

10. **FINDING:** Bid documentation not in school's files

Although the school's files included documentation that quotes were obtained, school personnel did not follow formal required bidding procedures for several applicable purchases, including yearbooks. The *Internal School Uniform Accounting Policy Manual*, page 5-15, states:

Each board of education should establish bid policies and procedures for student activity and other internal school funds within its jurisdiction, provided that limits for purchases requiring advertised bids cannot exceed the bid limit set forth for boards of education in applicable public or private statutes. . . .

Large individual purchases must be made only after proper advertising and bid procedures have been followed in accordance with such policies. This requirement shall also apply to purchases of like items which individually cost less than the amount specified in the applicable law . . .

The Sullivan County Department of Education's policy states that purchases over \$5,000 must go through a formal bid process.

RECOMMENDATION:

To obtain the best price, the school should follow the required bidding procedures for applicable purchases over \$5,000. Invoices and contracts that have not been bid should be rejected and the employee responsible for the purchase held liable.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I do not concur that proper bidding procedures are not being followed. We are unaware of any purchase over \$5,000 where this policy was not followed. It was stated possibly some athletic equipment could have been bid as a group. However, these purchases are not made at one time. Sometimes, they are purchased as the need arises. Sometimes, they are purchased when a company has a special on certain items. If the county obtains bids on smaller athletic purchases that would total over \$5,000, bids are only good if you purchase the entire lot. We can save a lot of money by buying as needed. We do not feel we have not complied with this procedure. We do not agree that the yearbook should have been bid. This is a service to our students and there are too many variables involved to get an adequate bid (number of pages, number of books ordered, colored pages, cover style, etc.). These variables change as the book is being produced. Any one of these variables will cause a significant price difference.

Bookkeeper:

I do not concur. We feel that proper bidding procedures are being followed.

AUDITOR'S REBUTTAL:

The school's files contained three invoices, totaling \$5,233.60, all dated October 4, 2000, for football uniforms. In addition, there were two invoices totaling \$6,990, both dated September 1, 2000, for cheerleading uniforms. As noted, the policy of the Sullivan County Department of Education states that purchases over \$5,000 must go through a formal bid process.

Further, the school's contract with the yearbook company results in the school's purchase of a product, not a professional service. To help ensure that the school receives the highest quality book at the lowest price, officials should request and review formal bids or proposals from all applicable vendors before signing a contract for production of the school's yearbook. The school should then award the contract to the best bidder. We reiterate our finding and recommendation.

11. **FINDING:** Sales tax not remitted for yearbook purchases

School personnel did not remit sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of yearbooks intended for resale. The *Internal School Uniform Accounting Policy Manual*, page 4-28A, states, “Resale items include **anything** purchased by the school and subsequently resold to students, teachers, clubs or other school organizations, the public, etc. (regardless of whether items are resold for profit or at cost).” Section 67-6-102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses who sell to schools. Vendors may collect and remit sales tax to the state on the sale of tangible personal property or taxable services to a public school, grades K-12, if the school intends to resell the property or services. However, if for any reason the vendor does not collect and remit sales tax to the state under these circumstances, the school is liable for use tax based on the purchase price of the item from the vendor.

RECOMMENDATION:

To avoid liabilities for sales tax due to the state and the related penalties, the school should comply with state sales tax statutes by remitting sales tax to the vendor or use tax to the Tennessee Department of Revenue for all applicable purchases of products intended for resale, including yearbooks.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that sales tax should be remitted on the yearbook. Although the yearbook according to the manual is a resale item, we have always considered this as a service to our students, not as a fundraiser. No profit is intended to be made. In the year 2000-01, the students paid \$55 for the yearbook without tax; this year they paid \$62 with sales tax. Our goal was to make it more affordable to all students. We have complied with the policy by paying sales tax in the year 2001-02.

Bookkeeper:

I concur that sales tax should be remitted on the yearbook. Sales tax was paid in the last school year, thus complying.

12. **FINDING:** **Inadequate property records**

The school did not maintain complete, up-to-date inventory records of property purchased and did not periodically perform an inventory. The *Internal School Uniform Accounting Policy Manual*, page 4-19, states, “It is essential to account for property (whether donated or purchased with individual school money) and to establish and maintain adequate internal controls for such property . . .” Pages 4-18–20 of the manual outline the school’s responsibility for controlling property, which includes maintaining up-to-date inventory records, permanently marking each piece of equipment, conducting periodic inventories of recorded property, obtaining written approval of specific items removed from school property, and ensuring all removals are for official use only.

RECOMMENDATION:

To better account for and control school property, the principal should ensure complete property inventory records are maintained. All relevant inventory information, including the serial number, date of purchase, and cost of the item, should be included in the inventory record at the time property is received. The records should also identify the employee responsible for the item and its location. In addition, a periodic inventory of recorded property should be performed and documented.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Department of Education:

Response is the same as that of the principal (refer below).

Principal:

I concur that adequate property records need to be maintained. We have purchased a computerized inventory program and are collecting all data to input inventory information.

Bookkeeper:

I concur that adequate property records need to be maintained. A program has been purchased to maintain these records. Maintaining this inventory is not a duty of the bookkeeper.